

Research Brief

Bundled Services: A Framework for Cutting Costs, Improving Performance, and Supporting Small Businesses

Bundling is a fast-growing trend in the commercial sector. The term is applied when services previously purchased separately are consolidated and purchased together from the same provider—e.g., janitorial and building maintenance.

Many commercial organizations have found that bundling cuts their total costs and improves service. These goals are important to federal organizations too. But federal organizations have an additional mandate: By law, they are required to support small businesses. Bundling results in fewer, larger contracts that may be beyond the capabilities of small businesses. To ensure that its procurement procedures meet these diverse goals, the Air Force asked RAND to develop a methodology to (1) decide when and how to bundle the services the Air Force buys and (2) justify these decisions in a way that satisfies the requirements of the 2000 legislation supporting small businesses.

RAND's suggested methodology is based on review of the applicable literature and extensive interviews with commercial and Air Force buyers, providers of bundled services, and small business advocacy groups. The key to the suggested methodology is a well-constructed Request for Information (RFI) that elicits credible information about potential savings and performance benefits associated with bundling and about small business participation opportunities from the providers themselves. Moreover, the information must be provided in a format that will be useful to the Air Force and justifiable to the Small Business Administration (SBA).

Appropriate Bundling Lowers Costs and Improves Service

The first step in RAND's research was to understand why and how bundling can be advantageous. The litera-

ture review and interviews with commercial firms and Air Force buyers suggest that buyers of bundled services benefit from lower total costs and improved service.

Lower total costs result largely from the use of fewer provider personnel. When one provider offers a variety of related services, it can use its employees more efficiently. Better cross-training, fewer backup personnel, fewer managers, and process and productivity improvements account for most of the savings. Additional savings can result from increased purchasing power, more efficient use of facilities and capital equipment, and elimination of duplicate information systems and overhead expenses. In addition, Air Force buyers of bundled services may be able to negotiate lower overall profit margins due to increased leverage with providers.

Improved service results from better coordination among related activities, greater emphasis on buyer satisfaction, greater buyer leverage with the provider to improve performance, and greater consistency in service levels. For example, if a toilet overflows, (1) the janitorial staff cleans up the water, (2) plumbers fix the underlying problem, and (3) building and/or groundskeeping staff may be needed to help access hidden or buried pipes. If these services are provided through separate contracts, the buyer must coordinate all work. However, if these services are included in a single contract, the provider is responsible for bringing together all resources in the most efficient manner and fixing the problem to the buyer's satisfaction.

Bundling can offer important benefits, but bundles should not be disproportionately large. Bundling is subject to normal large-organization diseconomies of scale: larger organizations typically have more layers of management, less direct communication among decision-makers, and more opportunities for divergent interests

to emerge. The Air Force should test bundles repeatedly over time to ensure that the benefits continue to outweigh any diseconomies.

RAND's research on commercial firms indicates that bundling is not an easy, one-size-fits-all answer to purchasing decisions. How bundling is accomplished directly affects the buyer's potential benefits. Bundling yields benefits in some settings and not in others. Some settings offer greater opportunities for benefits than others, and the acquisition approach matters. When bundling is appropriate, it is the Air Force buyer's responsibility to construct a bundle that maximizes benefits.

Bundles Must Be Necessary and Justified

The primary legislation addressing bundling is the Small Business Reauthorization Act of 1997 (SBRA), as interpreted by the final rule issued by the SBA on July 26, 2000. (The decision tree shown in the figure outlines the process for complying with SBRA requirements.) SBRA applies to recontracting activities; contracts resulting from Office of Management and Budget (OMB) Circular A-76 studies are exempt. Under SBRA, the buyer must conduct market research to determine whether the bundle is necessary and justified by the resulting benefits. The buyer must also demonstrate that total benefits, including service improvements (stated in terms of dollar savings), exceed the relevant threshold. Furthermore, if the total contract value is \$10 million or more, the buyer must assess impediments to small businesses as prime contractors and identify actions to maximize small business participation as both prime contractors and subcontractors. Finally, the SBA must agree that the bundle is necessary and justified and must approve the action plan to protect small businesses. Then the buyer can proceed.

Providers Are the Best Source of Required Information

Providers, particularly leading-edge providers, are the best source of the information the Air Force needs to decide when and how to bundle services and to justify bundling decisions to the SBA. The Air Force, therefore, should construct RFIs in a way that both encourages prospective providers to respond and elicits the quantitative data the Air Force needs. A successful RFI is as easy to answer as possible, gives providers all necessary information, and complies with all regulatory requirements. The Air Force should tailor the RFI to the cir-

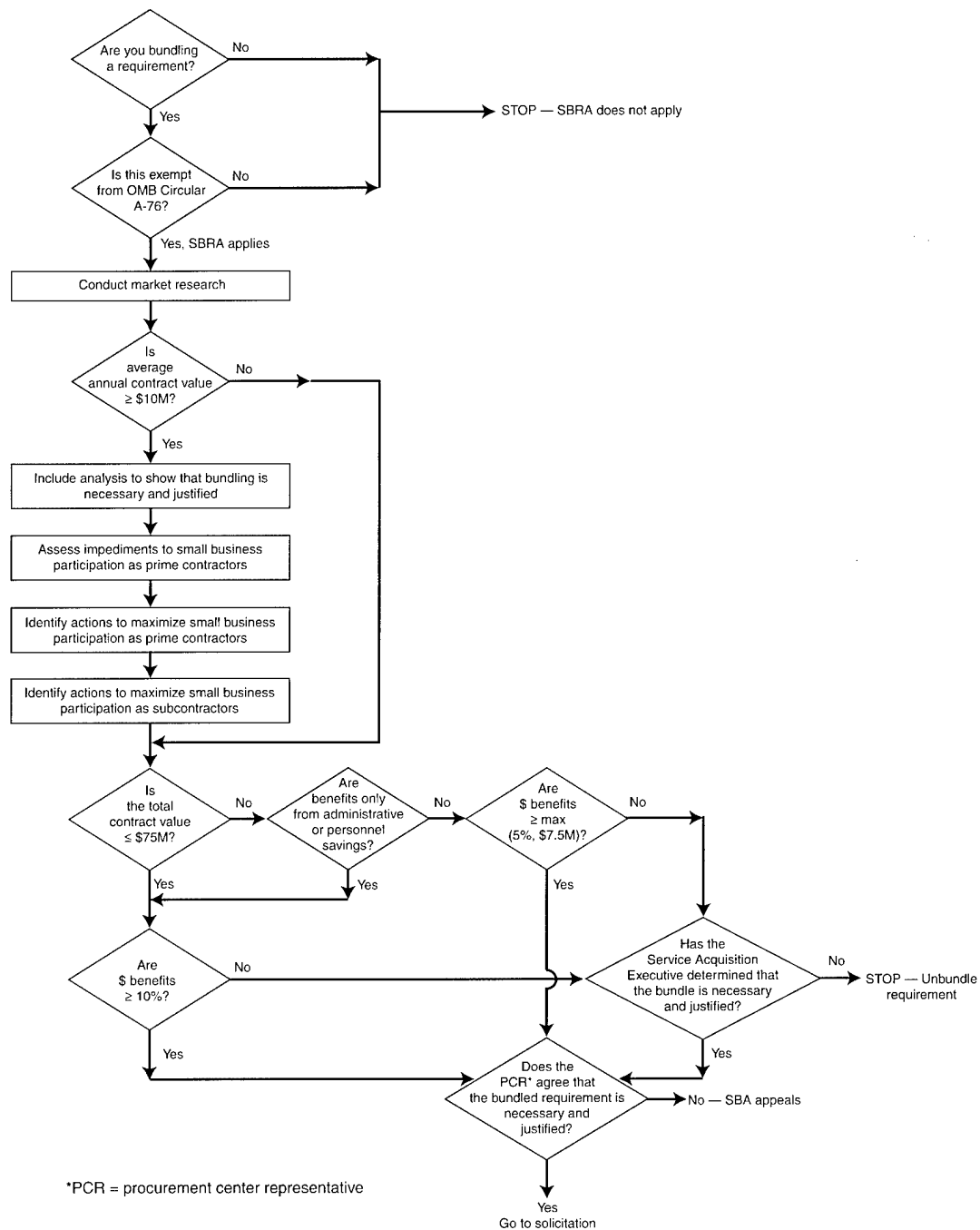
cumstances of a particular service acquisition as much as possible. Specifically, Air Force buyers should indicate the exact services being considered for bundling, the types of benefits valued by the Air Force, and the level of small business participation the Air Force requires. The RFI should also include baseline information on unbundled contracts, along with clear and simple rules for translating performance benefits into monetary terms. Providers should be asked to specify the types and levels of quantifiable benefits the Air Force can expect.

Evaluating and comparing RFI responses will enable the Air Force buyer to determine if a proposed bundle is appropriate (or if it should be rebundled or unbundled) and, if appropriate, whether it is justifiable to the SBA.

Providers are also the best source of information on small business involvement. Many providers are accustomed to creating opportunities for small businesses: they can suggest appropriate services to subcontract to maximize cost and service benefits. They can also track small business participation throughout the project to ensure that the Air Force's goals for small business participation are met.

Centralization Could Result in Better Acquisition Procedures

The approach developed by RAND places significant demands on Air Force buyers, who must become experts at designing and executing effective RFIs, evaluating responses, weighing alternative points of view, tracking actual versus estimated benefits, and incorporating lessons learned into future RFIs. Because so many special skills are required, the Air Force could benefit from centralizing its RFI approach. Centralization would allow Air Force buyers to develop a core competency in eliciting and analyzing bundling information. In addition, bundling is only one part of acquisition planning. To better coordinate all acquisition activities, market research for bundling decisions should be integrated within the Air Force's broader purchasing and supply management (PSM) and performance-based services acquisition (PBSA) activities. ■



Bundling Justification Decision Tree: To Comply with SBRA, Federal Buyers Must Complete Each Step

This research brief describes work done for RAND's Project AIR FORCE and documented in *Federal Contract Bundling: A Framework for Making and Justifying Decisions for Purchased Services* by Laura H. Baldwin, Frank Camm, and Nancy Y. Moore, MR-1224-AF, 2001, 148 pp., ISBN 0-8330-2945-2. The report is available from RAND Distribution Services (Telephone: 310-451-7002; toll free 877-584-8642; FAX: 310-451-6915; or email: order@rand.org). Abstracts of RAND documents may be viewed at www.rand.org. Publications are distributed to the trade by NBN. RAND® is a registered trademark. RAND is a nonprofit institution that helps improve policy and decisionmaking through research and analysis; its publications do not necessarily reflect the opinions or policies of its research sponsors.

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